Management and Sustainable Development Studies
Volume 4, Issue 1 - Spring 2024 - Pages 1-26
Homepage: https://sanad.iau.ir/journal/msds

Presenting the Model of Financial Synergy with the Grounded Theory Approach

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OPEN ACCESS

Article type: Research Article

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Received: November 28, 2023
Accepted: April 11, 2024
Published: Spring 2024

Citation: Issazadeh Lazarjani, H., Saeidi, P., Bokharaeian Khorasani, M, Gorganli Davaji, J. (2024). Presenting the Model of Financial Synergy with the Grounded Theory Approach. Journal of Management and Sustainable Development Studies, 4(1), 1-26.

Abstract: The current research was conducted to present a financial synergy model. The current research method has an exploratory-fundamental nature and has used the grounded theory approach. This research was conducted after conducting 15 semi-structured interviews (theoretical saturation) of experts in banking and university faculty members using non-probability purposeful sampling by snowball sampling method. To analyze the data from the interviews and coding, MAXQDA 2020 software was used in three stages open coding, central coding, and selective coding after extracting 308 open codes, 63 concepts, and 15 categories, and based on that, a qualitative model of the research was also presented. The results showed that the causal conditions of financial synergy include the necessity of financial synergy in integration, financial partnership synergy, financial innovation synergy, and financial capability synergy, and background conditions include financial technology synergy, organizational synergy, and market synergy. Also, intervening conditions include managerial synergy and growth synergy. The main phenomenon of financial synergy is sustainable competition. Also, the strategies include financial synergy strategy in the integration process, human resources synergy, and developmental synergy leading to the presentation of a mental image based on the importance of the financial synergy process and distinguishing this process from other aspects of the value of synergy as a result of integration which causes integration. Finally, the expected consequences of financial synergies include operational and performance synergies and profit synergies.

Keywords: Financial Synergy, Merger and Acquisition, Grounded Theory.

Extended Abstract

Introduction

Today, with the increasing progress of information technologies, communication, and structural changes in the global economy, attention has been paid to synergy issues as one of the new methods to manage and increase transparency, improve performance, and reduce risks in financial and economic decision-making processes. Synergy is an effective method to achieve growth and development in many areas including industry, capital market, and banking to use external financial resources to meet financial needs (Rizvi et al., 2024). The main goal of most companies is to achieve synergies after mergers and acquisitions. The most important concern and indicator for measuring the success or failure of mergers and acquisitions is financial synergy. Also, synergy should be based on tangible and intangible opportunities to create value. Synergies can be created when related activities are shared. In a company with diversified activities, a business can potentially share every activity it performs with every other business in the same organization. There are many possibilities for sharing resources and skills (Shen et al., 2023). Financial synergy can be positive (in favor of merger) or negative (in favor of separation). Synergy creates value, and it is argued that financial synergy is influenced by the value of mergers and acquisitions, which occurs through reducing the administrative costs of the business enterprise, improving the process (diversification), increasing revenues, increasing debt capacity, etc. (Kimetto, 2019). The opportunity to create synergy in banks has a suitable platform that empowers, and facilitates financial services, convenience, safety, high speed, and efficiency in banks. To reduce synergistic risks, credit, technology, default, and operations risks must be properly assessed (Haris et al., 2020).

Considering the shortcomings in the Western theoretical pattern and foundations in the development of financial synergy, especially in Iran; There is a need to develop and explain a pattern by conducting serious studies in this direction. This is even though comprehensive studies regarding the development of financial synergy have not been seriously established in Iran, and a local pattern has not been determined according to the economic conditions of the country. Financial synergy as an important economic phenomenon in Iran has not been considered institutionally, which indicates a research gap in this regard. Therefore, according to the topics raised, the current research aims to provide a presenting a financial synergy pattern with a grounded theory approach; It tries to answer the question, what are the causal conditions, Context conditions, intervening conditions, strategies, and consequences of the financial synergy pattern?

Theoretical framework

Financial synergies occur when the merger of two companies improves financial performance to a greater degree than if the companies operated as separate entities. Transactions involving financial synergies usually result in a larger company having greater bargaining power to obtain a lower cost of capital. Achieving a lower cost of capital as a result of a merger or acquisition is an example of financial synergy. Financial synergies arise from improving the efficiency of financing activities and are primarily related to reducing the cost of capital. Operational synergy is achieved through improving operational activities, such as reducing costs due to economies of scale (Han et al., 2023). Potential synergies are typically identified and evaluated in evaluation processes before the merger. After the signing of the deal, the real realization of synergies can take place. Capturing and delivering synergies is one of the key levers of the deal, meaning that process planning is critical to the performance of the merger. Another major issue is measuring synergies, especially when it comes to revenue synergies. Designing and building a measurement method that tracks the realization of synergies is challenging and often requires the support of the entire organization. Finally, delivery and tracking are synergies. The point here is that integration can take years, so a clear decision must be made about when to pursue and measure synergy. The period also depends on the nature of the objectives, the industry, and the size of the companies. The process of integrating two large companies by long-term measurement may take years. To better understand this issue, there is a need for mechanisms that draw management's attention to specific valuation methods and types of synergies. In valuing synergy, one should not neglect its complications, such as overestimating the limit, and not considering costs and negative effects on cash flows. Therefore, by identifying the speed of realization of synergy and the probability of realization of success, it is easier to estimate the real value of synergy (Bauer & Friesl, 2024). In the process of financial synergy, first, the scope of the main goal of a merger or combination should be expanded. This objective can be extended from the shareholder to the main stakeholders such as shareholders, employees, customers, etc. In this regard, it is necessary to combine the interests of the stakeholders and promote long-term coordination and cooperation between related people. Therefore, they will benefit from the long-term development of economic enterprises. The management level of the companies should start with a long-term perspective, and a logical localization of the companies' strategy should take place according to the framework and types of financial decisions. If the management of the companies does not do any activity, they cannot achieve perfection. Therefore, they should seek continuous efforts and improvements for the main goals of financial synergy. This is the only way companies can continuously develop. Target localization means continuous growth of the company's value. This not only shows the agent status of companies but also includes the role of social entities. The performance of social responsibility helps to create a proper interaction between economic enterprises, government, and society and creates a good external environment for the sustainable development of enterprises through financial synergy (Yu, 2015).

Methodology

The current research was conducted fundamentally; Thus, to obtain a brief description of the experiences, attitudes, and perceptions of the interviewees regarding the dimensions of the evaluation model, to develop the model of financial synergy, the qualitative research method, and specifically the grounded theory of the Strauss & Corbin (1998) has been used. The data collection method was field and the data collection tool was interview, and semi-structured interview based on exploratory study was used. The interview questions in the research include: what are the causal conditions, background factors, intervening factors, strategies, and consequences of the financial synergy pattern? In this method, data analysis has been coded and carried out using the open coding system (category identification), axial coding (category cultivation), and optional or selective coding (final category selection) through MAXQDA 2020 qualitative software. In this research, according to the purpose of determining the strategies, the team of decision-makers includes 15 senior bank managers and experts and academic experts and professors. Non-probability sampling was done by snowball sampling method. Individual interviews were between 40 and 50 minutes long, and after recording the interviews, they were all recorded and edited to extract categories and analysis in the next step.

Discussion and Results

From the point of view of the interviewees, one of the important reasons and causal conditions in the use of financial synergy during the past years is the necessity of financial synergy in the merger, which can lead to the improvement and acceleration of the merger process and create a bigger and stronger bank with more financial capabilities. Another causal condition is the synergy of financial participation, which can greatly contribute to the growth and development of banks through financial synergy. Other causal conditions include the synergy of financial innovation and the synergy of financial capability. These factors are one of the most important paths for greater competitive ability, risk management, and increased competitiveness in banks. The central core is the paradigm of financial synergy towards sustainable competition and is provided to the banking industry for exploitation. Context conditions include financial technology synergies, organizational synergies, and market synergies. These conditions should be considered for better success in implementing this process; Because it improves the quality and efficiency of services, internal processes, and organizational performance, expanding and developing banking activities in the market. Intervening conditions include managerial synergy and growth synergy. These conditions have remarkable features that banks can pay special attention to in improving management processes, investment opportunities, and activity growth. In the strategies or actions, the main actions and activities that can lead the way in the implementation of financial synergy were considered. These strategies include the strategy of financial synergy in the process of integration, synergy of human resources, and development synergy. Experts believe that if bank managers can adhere to the mentioned factors and continue, they can benefit from the consequences of financial synergy, which includes operational synergy, financial performance synergy, and financial profit synergy finally they can show more effectiveness in the overall structure of the organization and economic system of the country.

Conclusion

In the way of improving financial synergy, it is very important to pay attention to various aspects, including technology issues. Creating financial integration is not possible without familiarity with modern trends and technologies. Efficient management is one of the basic factors in the process of financial synergy. In the way of improving financial synergy, cultural topics can provide attitudinal and behavioral background for the development of financial synergy. In general, the results showed that the strategies of this research lead to the presentation of a mental image based on the importance of the financial synergy process, as well as the differentiation of this process with other aspects of the value of synergy in the effect of the merger. Paying attention to issues related to human resources and creating excellence in the field of human resources can be one of the important and key solutions for the development of financial synergy in the process of merger. In the development of financial synergy, multidimensional planning should be considered so that different topics can be created in human, organizational, technological, and integration fields. Undoubtedly, the strategies identified in the current research are on the way to development as one of the important issues of financial synergy that can create integration.